Legislative Analysis

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LOWER REQUIRED CREDIT RATING FOR RETIREMENT LIABILITY BORROWING

House Bill 4468
Sponsor: Rep. Stacy Erwin Oakes
Committee: Financial Liability Reform

Complete to 6-18-13

A SUMMARY OF HOUSE BILL 4468 AS INTRODUCED 3-19-13

House Bill 4468 would amend the Revised Municipal Finance Act to lower the minimum required credit rating, from AA to A-, for a municipality to issue a security to pay off an unfunded pension or postemployment health care liability.

Currently, under provisions added by Public Act 329 of 2012, the act allows a municipality (county, city, village, or township) to issue a security to pay off such liabilities under certain circumstances through December 31, 2014.

FISCAL IMPACT:

To the extent the bill would result in additional municipalities pursuing the borrowing allowed under the act, it could result in a small increase in administrative costs for the Department of Treasury, which is required to review and approve such borrowing under the act.

The fiscal impact of any additional borrowing that would occur by making additional municipalities eligible on local liabilities and long-term expenditures is indeterminate. To the extent eligible municipalities opt to issue securities to pay off the UAL, those local units incur fixed debt obligations, as opposed to retirement system contributions for UAL costs which increase or decrease as investment returns and other factors built into actuarial assumptions fluctuate over time. (New UAL costs can arise over time, beyond those the local unit initially borrows for.) Generally, securities issued for this purpose are not exempt from federal taxation since the purpose of the borrowing is to take advantage of borrowing rates that are lower than assumed rates of returns for retirement system investments. The amount of any savings (or costs) to local units borrowing under the act's provisions depend on the interest rate at which they borrow funds relative to future retirement system investment returns.

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